

DRAFT

_____, 2010

Advice 3091-G-A/3616-E-A

(Pacific Gas and Electric Company ID U 39 M)

Public Utilities Commission of the State of California

Subject: Supplemental Filing - Notification of the Creation of a New Affiliate**Purpose**

In accordance with Decision 06-12-029, Appendix A, Rule VI. B--New Affiliate Compliance Plans, Pacific Gas and Electric Company (PG&E) hereby notifies the Commission of the re-designation of an affiliate under Rule II.B of the Affiliate Transaction Rules.

This advice letter supersedes Advice 3091-G/3616-E in its entirety.

Background

Rule VI. B. requires that:

Upon creation of a new affiliate, which is addressed by these Rules, the utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission, served on parties to this proceeding. The advice letter shall demonstrate how the utility will implement these Rules with respect to the new affiliate.

Pacific Energy Capital I, LLC (formerly Pacific Venture Capital, LLC)

PG&E Corporation changed the affiliate classification of an existing entity, Pacific Venture Capital, LLC, to a Rule II.B affiliate on December 17, 2009. On April 14, 2010, the name of Pacific Venture Capital, LLC was changed to Pacific Energy Capital, LLC (PEC I). PEC I has been activated to establish and manage financial investments in growing energy companies.

The following are the Directors and Officers of PEC I:

Directors: Brian A. C. Steel
Gabriel B. Togneri

Officers: Gabriel B. Togneri, President and Chief Financial Officer
Brian A. C. Steel, Vice President
Jason P. Wells, Controller
Vivek Kapil, Treasurer
David M. Kelly, Secretary

Description Of The Investment

On December 17, 2009, PEC I entered into two agreements for the purpose of financing 9 MW of photovoltaic electric generation (PV) systems to be installed on more than 1,000 residential and commercial rooftops located principally in California and Arizona. The first agreement, between Pacific Gas and Electric Company and Banyan SolarCity Owner 2010 (Banyan), a wholly-owned subsidiary of SolarCity Corp. (SolarCity), is a fifteen-year Master Lease Agreement. SolarCity is a provider of solar power system design, financing, installation, monitoring and related services. PEC I's engagement in the SolarCity transactions is of a type usually characterized as a "tax equity investment."

Under the Master Lease Agreement, Banyan will own and install rooftop PV systems and PEC I will pay Banyan \$61 million in rent over the fifteen-year term to lease those systems. In return, PEC I will receive the investment tax credits for the projects. PEC I will also rent the equipment to the host customers and receive the associated rental income. The host customers will receive the energy generated by the projects and those customers who reside in Pacific Gas and Electric Company's service territory will participate in Pacific Gas and Electric Company's Net Energy Metering Program. This investment structure is referred to as a non-partnership pass-through lease.

Under the second agreement, the Maintenance Services Agreement, executed with SolarCity, host customers will work directly with SolarCity employees and agents for billing, installation and upkeep of their PV systems. SolarCity will also manage the solar energy projects. Thus, under the two agreements, PEC I will have no responsibility for day-to-day management or operation of the PV systems and will not interact directly with the host customers or with Pacific Gas and Electric Company. Further, because SolarCity obtains tax equity capital from multiple investors, neither SolarCity nor the host customers to whom SolarCity sells will know at the time of contract execution whether or not capital from an affiliate of Pacific Gas and Electric Company will be used to acquire the system.

On June 23, 2010, PEC 1 entered into a second tax equity financing transaction with SolarCity to provide an additional \$17.2 million in capital to fund 4 MW of photovoltaic

systems to be installed on Wal-Mart stores located in California and Arizona. The agreements and relationships involved in the second SolarCity transaction were substantially similar to those describe above with respect to the first SolarCity transaction.

The SolarCity transactions were initiated and conducted independently from Pacific Gas and Electric Company and in full compliance with the Affiliate Transaction Rules. The transactions were funded by PG&E Corporation shareholders.

Continued Compliance With The Affiliate Transaction Rules

Pacific Gas and Electric Company has a strong Affiliate Transaction Rules compliance plan in place that, combined with additional targeted training provided in connection with PEC I's lease investments, will ensure continued compliance with the Affiliate Transaction Rules. On June 30, 2010, in Advice Letter 3131-G/3694-E, Pacific Gas and Electric Company filed its Affiliate Transaction Rules Compliance Plan with the Commission. Advice 3131-G/3694-E details Pacific Gas and Electric Company's plan for compliance with the Affiliate Transaction Rules. Pacific Gas and Electric Company employees are directed to understand and comply with Pacific Gas and Electric Company's Affiliated Transaction Company Procedures, which can be found on PG&E's internal web site. A communication was issued to all Pacific Gas and Electric Company employees directing them to comply with the Affiliate Transaction Rules and with the company's procedures. In addition, Pacific Gas and Electric Company provides training to targeted groups affected by particular rules. The annual audits performed by the independent auditors through 2006¹ have confirmed that Pacific Gas and Electric Company's procedures have been effective.

The following discussion addresses particular rules, their applicability to PEC I, and how Pacific Gas and Electric Company will address compliance with the rules.

Rule II – Applicability

Rule I.A of the Affiliate Transaction Rules define "affiliate" as "any person, corporation, utility, partnership, or other entity 5 percent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility's controlling corporation." Rule II makes the rules applicable "to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity." PEC I is a wholly-owned subsidiary of PG&E Corporation, which in turn owns Pacific Gas and Electric Company, and PEC I is thus an "affiliate." Through power purchase agreements and leases, PEC I will be renting PV systems to residential and commercial customers and will thus be engaging in the provision of a service that

¹ 2006 is the last year for which Pacific Gas and Electric Company had an independent audit of its Affiliate Transaction Rules compliance; independent biennial Commission-directed audits are pending.

relates to the use of electricity. The Affiliate Transaction Rules will therefore apply to any transactions between PEC I and Pacific Gas and Electric Company.

PEC I's transactions with SolarCity are passive financial investments in that PEC I will not engage in the management of Banyan, SolarCity, or the related customer solar energy systems. Moreover, most host customers will not know of the affiliate relationship between PEC I and Pacific Gas and Electric Company, as they will be exposed to the brand of SolarCity in connection with their solar energy systems.

Neither the Master Lease Agreement nor the Maintenance Services Agreement give PEC I any ownership interest in Banyan or SolarCity, nor any control over Banyan or SolarCity. Accordingly, neither Banyan nor SolarCity are "affiliates" under the Affiliate Transaction Rules.

Separate from this transaction, PG&E Corporation has warrant rights that allow it to acquire a one percent equity interest in SolarCity under certain circumstances. PG&E Corporation presently has no ownership interest or control over SolarCity, however, and, even if it ultimately exercises its warrant rights, it will only own a one percent interest, and SolarCity will still not be an "affiliate" within the meaning of Rule I.A.

Rule III - Nondiscrimination

Rule III.A prohibits a utility from (1) representing that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers, or (2) providing affiliates, or customers of affiliates, any preference over non-affiliated suppliers or their customers in the provision of services provided by the utility. In the case of PEC I, Pacific Gas and Electric Company, in its role as Program Administrator for CSI projects located in its service territory, will be providing certain CSI services to host customers of PEC I. Pacific Gas and Electric Company has policies and procedures in place to ensure compliance with Rule III.A.

In addition to the general communication issued to Pacific Gas and Electric Company employees and to regular compliance training, upon PEC I's execution of agreements with SolarCity, Pacific Gas and Electric Company sent a communication to employees responsible for managing CSI advising them that PEC I was a Rule II.B affiliate and reminding them to comply with the Affiliate Transaction Rules with emphasis on not providing preferential treatment to PEC I or SolarCity. All such employees were also required to take an additional on-line compliance training course. In addition, Pacific Gas and Electric Company provided targeted one-on-one compliance counseling to key employees responsible for administering CSI to ensure that Pacific Gas and Electric Company does not provide any preferential treatment to PEC I or SolarCity.

Rule III.B limits transactions between a utility and its affiliates to tariffed products and services, to the sale of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding

process, to the provision of information made generally available by the utility to all market participants, to Commission approved resource procurement by the utility, or to approved joint purchases or corporate support. In the case of PEC I, any transactions between PEC I and Pacific Gas and Electric Company (other than corporate support, addressed under Rule V.E, below) will be pursuant to Commission-approved CSI procedures or tariffs. Pacific Gas and Electric Company will only provide to PEC I (or to Banyan or SolarCity acting as agents for PEC I) the same information made generally available to all CSI participants. The Commission-approved procedures detailed in Advice 3131-G/3694-E are designed to ensure compliance with this rule and the Commission-ordered independent auditor's annual audits through 2006 have confirmed that these procedures are effective. Pacific Gas and Electric Company provided additional training to employees responsible for administering CSI to ensure that they understand and comply with this rule.

Rule III.C prohibits tying utility services to services provided by affiliates. No Pacific Gas and Electric Company customer will be required to install PEC I-leased systems in order to receive any services from Pacific Gas and Electric Company.

Rules III.D and III.E prohibit utilities from assigning customers to affiliates, providing leads to affiliates, soliciting business on behalf of affiliates, acquiring information in behalf of affiliates, sharing nonpublic market information with affiliates, requesting authorization from customers to pass on customer information exclusively to affiliates, or giving the appearance that the utility or affiliate speak on behalf of each other. The limited nature of any interaction between PEC I and Pacific Gas and Electric Company presents little danger of noncompliance with these rules. That said, Pacific Gas and Electric Company's Utility Affiliated Transaction Company Procedures and associated employee training are designed to ensure compliance with these rules. The specific training Pacific Gas and Electric Company provided to employees responsible for managing the CSI program was designed to ensure that they provide no preferential treatment to PEC I or SolarCity.

Rule IV - Disclosure and Information

Rule IV.A prohibits a utility from providing customer information to third parties without affirmative customer written consent, and then prohibits the utility from providing discriminatory access to such information to affiliates. PEC I's participation in the CSI program will not involve access to Pacific Gas and Electric Company customer data, and thus does not present a danger of discriminatory access. That said, Pacific Gas and Electric Company's Utility Affiliated Transaction Company Procedures and associated employee training are designed to ensure compliance with these rules, and employees responsible for managing the CSI program received additional training in affiliate rules compliance with respect to solar energy affiliate relationships.

Rule IV.B. prohibits a utility from providing non-customer specific non-public information to its affiliates. PEC I's participation in the CSI program will neither require nor benefit

from acquisition of non-public utility information. Regardless, Pacific Gas and Electric Company's Utility Affiliated Transaction Company Procedures and associated employee training are designed to ensure compliance with this rule.

Rule IV.C prohibits utilities from providing lists of service providers to customers except by request of the customer or as otherwise authorized by the Commission. This rule applies to any list, whether or not the list includes utility affiliates. Pacific Gas and Electric Company employees responsible for managing the CSI program and customer service employees are thus already trained to comply with this rule.

Rule IV.D prohibits the utility from providing non-public information received from unaffiliated suppliers to its affiliates without prior written authorization. Pacific Gas and Electric Company provided additional training for employees responsible for managing CSI to ensure that they do not provide non-public information received from other CSI suppliers to solar energy affiliates.

Rule IV.E prohibits utilities from providing "customer advice or assistance with regard to its affiliates or other service providers." Because this rule applies to all service providers, whether or not they are an affiliate, Pacific Gas and Electric Company employees responsible for managing the CSI program and customer service employees are already trained to comply with this rule. In addition, as discussed above, CSI employees received additional compliance training upon PEC I's execution of the agreements with Banyan and SolarCity.

Rules IV.F and IV.G require utilities to maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates and to maintain such records for a minimum of three years, and to maintain a record of all contracts and related bids for the provision of work, products or services between the utility and its affiliates for at least three years. Pacific Gas and Electric Company employees are trained to comply with this rule, and those employees responsible for managing CSI in particular have been trained to comply with these rules.

Rule V - Separation

Rule V requires that a utility and its affiliates be separate corporate entities, keep separate books and records, maintain such books and records open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Sections 314 and 701, and not share plant, facilities, equipment or costs, other than authorized shared corporate support services. PEC I is and will remain in full compliance with these rules. PEC I is a separate Delaware limited liability company registered with the California Secretary of State. PEC I maintains its own books and records which are available for examination by the Commission as required by law. PEC I's headquarters are located at One Market Plaza in San Francisco, separate from Pacific Gas and Electric Company, and shares no facilities, equipment or costs with Pacific Gas and Electric Company, other than the cost of permitted shared support services authorized by the Affiliate Transaction Rules.

Rule V.D prohibits certain joint purchases by a utility and its affiliate. Because SolarCity, not PEC I, will be installing and managing the CSI projects that PEC I will be leasing, PEC I will have no need to, and will not, make any joint purchases with Pacific Gas and Electric Company.

Rule V.E limits the type of corporate support that an affiliate may share with a utility. PEC I will receive certain corporate support services from PG&E Corporation and from Pacific Gas and Electric Company. Pacific Gas and Electric Company has detailed procedures in place to ensure compliance with Rule V.E. Moreover, shared support services have been described and subject to discovery in each of Pacific Gas and Electric Company's recent general rate cases. PEC I will only receive the same types of corporate support services that PG&E Corporation and Pacific Gas and Electric Company have historically provided to other Rule II.B affiliates in compliance with this rule (e.g., legal, financial planning, shareholder services, etc.).

Rule V.F prohibits a utility from trading upon, promoting or advertising its affiliate's affiliation with the utility, or allowing affiliates to use the utility's name or logo unless the affiliate includes the required disclaimer. Because PEC I will have no role in managing or operating the PV facilities it will lease from Banyan, PEC I will not engage in any advertising or promotion, and will thus have no opportunity to violate this rule. In addition, Pacific Gas and Electric Company employees will have no involvement with PEC I and will thus not participate in joint advertising or marketing, joint sales calls, trade shows or other events.

Rule V.G. prohibits sharing employees, except in connection with approved corporate support. PEC I will not employ anyone who is also employed by Pacific Gas and Electric Company.

Rule V.H requires that any transfer of goods or services from an affiliate to a utility be priced at no more than fair market value. The only services PEC I may receive from Pacific Gas and Electric Company (other than authorized shared corporate support services) will be pursuant to approved CSI procedures or tariffs and are thus deemed to be at fair market value under Rule V.H.3. PEC I will provide no goods or services to Pacific Gas and Electric Company.

Pacific Gas and Electric Company does not believe that the transactions it may engage in with PEC I as CSI program administrator implicate any other Affiliate Transaction Rules.

Additional Information

No unusual or unique circumstances exist that would require special affiliate transactions rule implementation measures.

Questions regarding this affiliate should be addressed to Megan Janis, Director, Compliance and Ethics at (415) 973-8190.

PG&E has previously notified Commission staff and posted notice of the formation of these affiliates on its affiliate transaction World Wide Web site at: <http://www.pge.com/about/rates/affiliate/>.

This filing will not increase any other rate or charge, cause the withdrawal of service, or conflict with any rate schedule or rule.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than _____, 2010, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: jjj@cpuc.ca.gov and mas@cpuc.ca.gov

Copies also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. Mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

Jane K. Yura
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-6520
E-mail: PGETariffs@pge.com

Effective Date

PG&E requests that this advice filing become effective on _____, 2010, the date of this filing. PG&E submits this as a Tier 1 filing.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for A.09-02-019, R.05-10-030, and R.08-03-008. Address changes to the General Order 96-B service list and all electronic approvals should be directed to e-mail PGETariffs@pge.com. Advice letter filings can also be accessed electronically at: <http://www.pge.com/tariffs>.

Vice President – Regulation and Rates

cc: Service List - R.05-10-030

Attachments